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## **MEMORANDUM**

To: Land Use Committee

Date: February 10, 2009

From: Matt Maloney, Senior Manager, Program and Policy Development

Re: State and Local Tax Policy Snapshot and Direction for GO TO 2040

## **Overview of Snapshot Report**

Last month, CMAP released its latest regional snapshot report on State and Local Tax Policy. This report distills much of the progress made by CMAP staff in analyzing tax policies and other public finance issues as they relate to the broader context of long range regional planning.

From a regional planning perspective, it is vital to understand the dynamics of various state and local tax policies, especially in terms of their potential impacts on development decisions, regional economic productivity, and equity. Most, if not all, planning decisions have fiscal consequences, both direct and indirect. Today's metropolitan landscape is largely shaped by land use decisions made by local governments. In part, these decisions are motivated by localized fiscal imperatives.

In the spring of 2009, the CMAP Board met with staff in a special Executive Committee meeting to discuss some of the major issues which may be addressed in *GO TO 2040*. The CMAP Board reached broad consensus in urging further staff research in the area of tax policy and supported the staff's opinion that it should be a high priority recommendation issue for the plan. In May 2009, the Board approved a set of <u>Tax Principles</u>, a means by which CMAP might judge taxes and other revenue generators at the State and local level. In November 2009, staff presented the snapshot report and potential direction for *GO TO 2040* to the CMAP Board.

The purpose of the snapshot is to outline the range of key issues related to state and local tax policies across the region, with an emphasis on the property, sales, income and motor fuel tax. The report also includes chapters summarizing the available research on taxation and business activity and the potential impacts of certain tax policies on land use and development decisions. The report refers to the latter as the "fiscalization of land use", which is a term borrowed from

the California experience regarding Proposition 13, property tax caps and the emerging reliance on the sales tax in that state.

The enclosed report does not contain specific recommendations and should not be viewed as suggestive of any particular policy. However, staff would like *GO TO 2040* to discuss matters of public finance and also provide more direct recommendations about these matters. At this point, staff considers "tax policy" to be one of 10-12 key policy directions for the Plan.

## Direction for GO TO 2040

On the whole, state and local tax systems across the U.S., including ones specific to the State of Illinois and the CMAP region, often fail to satisfy the most important principles of good tax policy: adequacy, long term sustainability, equity, and transparency. A "good" system of taxation is typically one with a broad base and low rates that does not create de facto incentives for inefficient residential or commercial location decisions. Our region's particular reliance on the sales and property tax, the mechanics by which these and other taxes are administered, as well as other issues related to state and local revenue sharing arrangements, all require serious consideration in the context of *GO TO 2040*'s emphasis on the regional economy, sustainability, and inter-governmental coordination.

Tax policy represents a new focus area for CMAP. It also comprises a wealth of complex issues. Thus, CMAP recommends that plan recommendations take further shape under the creation of a **Regional Tax Policy Task Force**, to be housed at CMAP and formed after the adoption of *GO TO 2040*. Membership on this new group would include local government officials, academic experts, the business community, and other civic organizations. Broadly speaking, this group would be charged with coordinating on issues central to state and local fiscal policy, through the lens of the regional economy, sustainability, and equity. Meetings would help elucidate the direct connections between tax policies and development decisions, further develop staff research in these areas, and provide more specific recommendations.

While CMAP anticipates that this new group will recommend specific changes in policy related to these matters, *GO TO 2040* would identify the following as the most imperative issues for action:

- Current State and Local Revenue Sharing Criteria, and a Particular Emphasis on the State Sales Tax
- Property Tax Classification, Limitations, and Exemptions
- Sales Tax and the Service Sector
- State Income Tax
- Local Tax Capacity

The aforementioned issues will be discussed with more specificity within the staff presentation of the snapshot report. Transportation finance issues, including the State Motor Fuel Tax, will be covered in the plan's proposed recommendation on transportation finance.

## **ACTION REQUESTED: Discussion**